

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 INR-10

NSAE-00 DODE-00 PA-04 USIA-15 PRS-01 COME-00 FRB-02

XMB-07 OPIC-12 LAB-06 SIL-01 FEA-02 INT-08 SCI-06

SAJ-01 SAM-01 DRC-01 /164 W
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R 030240Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 583

USLO PEKING

AMEMBASSY TOKYO

C O N F I D E N T I A L HONG KONG 4909

DEPARTMENT PLEASE PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, JA, CH

SUBJECT: DEVELOPMENT OF JAPAN-CHINA FINANCIAL RELATIONSHIPS

1. SUMMARY: IN PERIODIC REVIEW WITH, TREASURY REP, WATANABE, BANK OF JAPAN (BOJ) REPRESENTATIVE IN HONG KONG, DESCRIBED RECENT VISIT OF BOJ GROUP TO PEOPLE BANK IN PEKING, TECHNIQUES WHICH CONTINUE TO MAKE YEN-YUAN CLEARING AGREEMENT SOURCE OF B/P CREDIT FOR PRC AND MORE DETAILS RELATED TO DEPOSIT EURO CURRENCY IN BOC BY JAPANESE BANKS. END SUMMARY.

2. BOJ GROUP VISITS PEOPLES BANK- WATANABE HAD RETURNED APRIL 26 FROM WEEK'S STAY IN CHINA MOST OF WHICH HAD BEEN SPENT IN PEKING WITH BOJ GROUP VISITING THE PEOPLES BANK. PURPOSE OF TRIP SEEMED TO BE TO ACQUAINT JAPANESE WITH SOME OF THE KEY OFFICIALS IN PEOPLES BANK AND TO EXCHANGE VIEWS ON THE OPERATION OF EACH OTHER'S ECONOMIES. CHINESE ALSO SHOWED GREAT INTEREST IN JAPANESE OBSERVATIONS ON US AND EUROPEAN ECONOMIES. THEY MET
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HEADS OF PLANNING AND FOREIGN DEPARTMENTS IN THE COURSE OF FOUR

MORNINGS OF DISCUSSIONS.

3. WITH RESPECT TO INTERNATIONAL TRANSACTIONS, WATANABE LEARNED THAT PRC USED BUDGET SYSTEM IN WHICH FOREIGN EXCHANGE USES WAS ALLOCATED ON THE BASIS OF EXPECTED RECEIPTS. IN RESPONSE TO HIS QUESTION ON WHETHER THEY WOULD PLAN FOR BALANCE OVER A PERIOD OF SEVERAL YEARS, THEY MAINTAINED THAT INCOME AND OUTFLOW SHOULD BALANCE ANNUALLY OR PREFERABLY THAT THERE BE A SMALL SURPLUS, I.E., BUILD-UP OF RESERVES.

4. JAPAN-CHINA CLEARING AGREEMENT- HE MADE FOLLOWING OBSERVATIONS:

(A) CONVERSIONS FROM RMB TO YEN VIA STERLING HAD TAKEN PLACE BUT THEY SEEMED TO BE EXCEPTION RATHER THAN RULE;

(B) INTEREST WAS PAID ON JAPANESE BANK'S HOLDINGS OF RMB BUT IT WAS CALLED "COMMISSION" AND PAID IN RMB BY CREDITING BANK'S ACCOUNT;

(C) JAPANESE BANKS DISLIKED BUILD-UP OF THEIR RMB ASSETS WITHOUT EXCHANGE RATE PROTECTION BUT EACH HESITATED TO COMPLAIN FOR FEAR OF THEIR COMPETITORS TAKING ADVANTAGE;

(D) FOR SAME REASON, HE EXPECTED CLEARING AGREEMENT WOULD BE EXTENDED AGAIN IN AUGUST WITHOUT MAJOR MODIFICATIONS; AND

(E) BOC HAD TWENTY-THREE JAPANESE BANK CORRESPONDENTS BUT ONLY 8-10 BANKS HAD DIRECT CLEARING ARRANGEMENTS WITH THE OTHERS OPERATING THROUGH THEM.

5. EURO CURRENCY DEPOSITS - WATANABE CHARACTERIZED FIGURE OF \$50 MILLION IN DEPOSITS OF EURO CURRENCY BY JAPANESE BANKS A FEW MONTHS AGO AS BEING COMMITMENT LEVEL. HE DID NOT THINK IT WOULD RISE MUCH MORE BECAUSE "FIVE OR SIX BIG BANKS WERE ALREADY INCLUDED." FOUR WERE MENTIONED: BANK OF TOKYO, SANWA, MITSUBUSHI AND FUJI.

6. PERSONAL IMPRESSIONS - HE FOUND PEOPLE IN CANTON MUCH MORE CHEERFUL THAN IN PEKING AND THOSE IN SHANGHAI MORE COSMOPOLITAN. HE WAS APPALLED BY THE WAY THEIR CHINESE GUIDES PUSHED ASIDE LOCALS ON THEIR SIGHTSEEING TRIPS. IT WAS "LIKE OLD JAPAN."
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